

Message Text

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ACTION TRSE-00

INFO OCT-01 ARA-11 IO-13 ISO-00 AGRE-00 CIAE-00
COME-00 EB-08 INR-10 LAB-04 NSAE-00 SP-02 STR-07
FRB-03 OMB-01 L-03 SS-15 NSCE-00 SSO-00 INRE-00
ICAE-00 /078 W

-----071829 091812Z /73

O 091645Z SEP 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC IMMEDIATE 8943
INFO USMISSION GENEVA
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

C O N F I D E N T I A L SECTION 1 OF 2 BRASILIA 7066

DEPARTMENT PASS TREASURY AND STR

E.O. 11652: GDS
TAGS: EFIN, BR
SUBJECT: U.S. - BRAZIL EXPORT SUBSIDIES/CVD TALKS

REF: (A) STATE 218148; (B) STATE 221701; (C) STATE 221830 AND
(D) STATE 224525

1. SUMMARY: EMBASSY DELIVERED SUBSIDIES/CVD PROPOSAL REGARDING
LDCS TO FOREIGN MINISTRY AND FINANCE MINISTRY AND MADE ORAL POINTS
AS INSTRUCTED IN REFTELS. INITIAL GOB RESPONSE WAS EXPRESSION OF
HOPE FOR REASONABLE ACCOMMODATION ACCOMPANIED BY REFERENCE TO
DIFFICULT DOMESTIC POLITICAL ATMOSPHERE. DORNELLES AND BOTAFOGO
STRESSED NEED FOR RESOLUTION OF TEXTILES CASE AND MADE SPECIFIC
COUNTERPROPOSAL ON TEXTILES AND PRELIMINARY OBSERVATIONS ON OVERALL
CODE PROPOSAL. TEXTILE DATA WILL BE AVAILABLE WEEK OF SEPTEMBER
11 AND GOB ANXIOUS FOR U.S. RESPONSE AND RESOLUTION OF ISSUE PRIOR
TO RESUMPTION OF FULL-SCALE SUBSIDIES/CVD TALKS IN GENEVA AND
DEPARTURE OF MINISTER SIMONSEN FOR FUND/BANK MEETINGS IN WASHINGTON.
END SUMMARY.

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2. EMBASSY DELIVERED DIPLOMATIC NOTE CONTAINING SUBSIDIES/CVD
PROPOSAL (REFS. A AND B) TO FOREIGN MINISTRY (PROENCA
ROSA) AND PROVIDED A COPY TO FINANCE MINISTER SIMONSEN
ON SEPTEMBER 5. FINATT MET WITH DORNELLES AND BOTAFOGO
AND MADE FOLLOWING ORAL POINTS: (A) U.S. WILLING TO EXCLUDE
REFERENCE IN PROPOSAL TO SPECIFIC PHASEOUT PERIODS OF THREE

TO FIVE YEARS IN EFFORT TO FACILITATE GOB ACCEPTANCE BUT U.S. STILL CONSIDERS THIS TIME FRAME NECESSARY AND APPROPRIATE AND WILL EXPECT FURTHER BILATERAL DISCUSSIONS AND AGREEMENT ON THREE TO FIVE YEARS SOON AFTER MID-NOVEMBER; (B) AS IS STILL EVIDENT IN ITEM G OF THE PROPOSAL, U.S. ATTACHES IMPORTANCE TO TRADE-OFF WHEREBY PHASEOUT OVER LONGER PERIOD WILL REQUIRE LARGER REDUCTION AT BEGINNING OF PERIOD; (C) PER REF. C WE INDICATED THAT CURRENT ATTITUDES IN CONGRESS MAKE VERY UNLIKELY ANY EARLY REQUEST FOR EXTENSION OF WAIVER AUTHORITY; (D) U.S. HOPES THAT THE GOB MIGHT BE ABLE TO RESPOND AT LEAST PRELIMINARILY TO THE PROPOSAL PRIOR TO REOPENING OF SUBSIDIES/CVD CODE TALKS IN GENEVA.

3. DORNELLES EXPRESSED APPRECIATION FOR U.S. FLEXIBILITY ON PRESENTATION OF SPECIFIC TIME PERIOD. HE CONFIRMED THAT UNDERSTANDING REACHED IN WASHINGTON HAS NOT CHANGED AND THAT MINISTER SIMONSEN IS AGREED TO THE THREE TO FIVE YEARS AND WILL BE PREPARED TO ACCEPT THIS ELEMENT AFTER THE ELECTIONS IN MID-NOVEMBER. DORNELLES AND BOTAFOGO BOTH CONFIRMED THEIR ACCEPTANCE OF THE TRADE-OFF AND VOLUNTEERED THEIR UNDERSTANDING THAT PHASEOUT WOULD BEGIN SIX MONTHS AFTER EFFECTIVE IMPLEMENTATION OF THE CODE AND USE OF THE FIVE-YEAR PERIOD WOULD REQUIRE 40 PERCENT REDUCTION IN SUBSIDY DURING FIRST YEAR. BOTH EXPRESSED SOME CONCERN WITH THE UNFAVORABLE ATMOSPHERE REGARDING EXTENSION OF CONFIDENTIAL

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WAIVER AUTHORITY. THEY CONCLUDED THAT SUCCESSFUL NEGOTIATION OF A CODE IS ABSOLUTELY ESSENTIAL IN ORDER TO PERSUADE CONGRESS OF APPROPRIATENESS AND NEED FOR EXTENSION.

4. AT LUNCH ON SEPTEMBER 8 DORNELLES AND BOTAFOGO EXPRESSED TO ECON COUNSELOR AND FINATT GOB INITIAL RESPONSE TO PROPOSAL, STRESSING THE FIRST ORDER OF BUSINESS SHOULD BE SETTLEMENT OF PENDING TEXTILE CASE. DORNELLES REGRETTED THAT HIS OFFER IN WASHINGTON TO ELIMINATE IMMEDIATELY ICM/IPI PREMIUMS IN EXCHANGE FOR NEGATIVE FINDING HAD BEEN REJECTED. HE SAID HE WAS PLEASED WITH OVERALL PROGRESS IN WASHINGTON MEETINGS BUT FELT THAT TREASURY TECHNICAL LEVEL SPOKESMEN DID NOT SUFFICIENTLY APPRECIATE THE SERIOUS POLITICAL OPPOSITION IN BRAZIL TO ANY CONCESSIONS ON EXPORT SUBSIDIES. IN CHARACTERISTIC FASHION, HE REFERRED TO "POLITICIANS, GENERALS, AND BUSINESSMEN WHO MAKE THE

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C O N F I D E N T I A L SECTION 2 OF 2 BRASILIA 7066

DEPARTMENT PASS TREASURY AND STR

ENVIRONMENT IN BRAZIL JUST AS DIFFICULT FOR THOSE SEEKING
A SOLUTION AS DOES THE CONGRESS IN THE U.S.." HE EMPHASIZED
THAT THE OFFER TO ELIMINATE IMMEDIATELY THE ICM/IPI
PREMIUMS IS DEFINITELY WITHDRAWN. HE SAID HE BELIEVES THAT THE BEST
COURSE NOW IS TO SEEK A NEGATIVE FINDING, OR ALTERNATIVELY,
A WAIVER, BASED ON A PHASEOUT OF THE ICM/IPI PREMIUM AND
PERHAPS ALSO THE 298 CREDITS OVER A PERIOD OF TWO YEARS.
HE ADDED THAT THE GOB MIGHT BE PREPARED TO APPLY A TAX
ON TEXTILE EXPORTS TO THE U.S. TO OFFSET IMMEDIATELY AND
EFFECTIVELY THE SUBSIDIZATION RELATED TO THE ICM/IPI
PREMIUM. THE TAX WOULD BE PROGRESSIVELY REDUCED SIMUL-
TANEOUSLY WITH PHASING DOWN OF THE ICM/IPI PREMIUM. HE
STRESSED THE IMPORTANCE OF AT LEAST A TWO-YEAR PHASEOUT,
WHILE ACKNOWLEDGING THE PROBLEM OF ANY PHASEOUT PERIOD IN
VIEW OF PROSPECTS FOR EXTENTION OF WAIVER. HE THEREFORE
EXPRESSED STRONG PREFERENCE FOR NEGATIVE FINDING BUT SAID
EVEN A WAIVER WOULD BE BETTER THAN NOTHING, ALTHOUGH ITS
EFFECTIVENESS WOULD AT BEST DEPEND ON SUCCESSFUL
NEGOTIATION OF A CODE AND SUBSEQUENT EXTENSION OF WAIVER
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AUTHORITY.

5. BOTH DORNELLES AND BOTAGOGO STRESSED IMPORTANCE OF
RESOLVING TEXTILE PROBLEM IN ORDER FOR BRAZIL TO ACCEPT

OVERALL CODE PROPOSAL AND ASSUME LEADERSHIP
ROLE TO ASSURE SUPPORT OF OTHER LDCS. DORNELLES POINTED OUT
DIFFICULTY IN EXPLAINING TO PRESIDENT AND TO TEXTILE
INDUSTRY THE APPARENT INCONSISTENCY OF REQUIRING IMMEDIATE
ACTION ON TEXTILES WHILE PERMITTING THREE TO FIVE YEAR
PHASEOUT ON OTHER EXPORTS. HE MENTIONED THAT THE EXISTENCE
OF THE BILATERAL TEXTILE AGREEMENT, UNDER WHICH BRAZIL
HAS NEVER FULFILLED ITS QUOTA, ALSO COMPLICATED THE TASK
OF GETTING GOB ACQUIESCENCE TO U.S. DEMANDS IN TEXTILE
CVD CASE. BOTAFOGO SPOKE OF THE IMPORTANCE OF BRAZIL'S
INFLUENCE IN BRINGING ALONG OTHER LDCS ON THE CODE. HE
SEES THIS AS A DIFFICULT TASK BECAUSE MANY OTHER LDCS
HAVE NOTHING TO LOSE FROM ADHERING TO HARDLINE REJECTION
OF ANY COMPROMISE ON SUBSIDIES.

6. DORNELLES AND BOTAFOGO OUTLINED THE GOB'S INITIAL
RESPONSE TO THE PROPOSAL FOR SPECIAL AND
DIFFERENTIAL TREATMENT UNDER THE CODE AS FOLLOWS: (A)
BELIEVE CONSIDERABLE PROGRESS HAS BEEN MADE BUT BELIEVE
TREATMENT OF LDCS SHOULD BE SIMPLIFIED; (B) PROPOSE THAT
NO CVD ACTION BE PERMITTED UNDER TRACK I AS WELL AS
TRACK II SINCE ADOPTION OF LONGER PHASEOUT PERIOD AND
THUS LARGER EARLIER CUTS IMPLIES THERE WILL BE NO INJURY
DURING PHASEOUT; (C) SUGGEST NO PROVISIONAL MEASURES BE
PERMITTED VIS-A-VIS LDCS OR AT LEAST THAT THEIR APPLI-
CATION BE SUBJECT TO VERY STRICT DISCIPLINE; (D) EMPHASIS
ON PRESERVING SELECTIVE APPROACH INVOLVING DIFFERENTIAL
TREATMENT ON A PRODUCT-BY-PRODUCT BASIS; (E) CONCERN
THAT ANY ATTEMPT TO INTRODUCE EXPLICIT LANGUAGE ON LDC
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GRADUATION AND ASSUMPTION OF FULLER RESPONSIBILITIES AND
COMMITMENTS MAY BE COUNTERPRODUCTIVE TO PRIMARY OBJECTIVES
OF THE CODE NEGOTIATIONS.

7. GOB SPOKESMAN STRESSED URGENCY. DORNELLES SAID
TEXTILE DATA WILL BE READY FOR EMBASSY TO TRANSMIT
TO WASHINGTON BY SEPTEMBER 12 OR 13. HE IS PREPARED TO
SEND SCHIEVELBEIN TO JOIN HEMINGDINGER FOR TECHNICAL
DISCUSSIONS IN TREASURY IF DEEMED DESIRABLE. ALTERNATIVELY,
HE SAID HE WOULD WELCOME EARLY VISIT TO BRAZIL BY ER-
HENHAFT AND SELF TO DISCUSS DATA. DORNELLES HOPES THAT
U.S. CAN ESTIMATE LEVEL OF POSSIBLE CVD AND RESPOND ON
PROPOSED APPROACHES SOONEST IN ORDER TO PERMIT BASIC
AGREEMENT ON TEXTILE CASE PRIOR TO DEPARTURE OF MINISTER
SIMONSEN ON SEPTEMBER 23 FOR FUND/BANK MEETINGS. BOTAFOGO
COMMENTED THAT THIS DEADLINE WOULD BE MORE OR LESS
CONSISTENT WITH REOPENING OF SUBSIDIES/CVD TALKS IN
GENEVA ON OR ABOUT SEPTEMBER 18. BOTAFOGO PLANS TO
DEPART FOR GENEVA SEPTEMBER 9 AND REMAIN THERE FOR APPROXI-

MATELY TWO WEEKS. DORNELLES EXPECTS TO TRAVEL LATER IN SEPTEMBER BUT COMMENTED TO FINATT THAT HE WILL NOT TRAVEL TO THE U.S. OR GENEVA UNLESS AND UNTIL THE TEXTILE ISSUE IS RESOLVED AND THE GOB FIRMS UP ITS POSITION ON THE CODE.

8. AT INDEPENDENCE DAY FUNCTIONS ON SEPTEMBER 7 AMBASSADOR SAYRE STRESSED IMPORTANCE OF GOB RESPONSE TO PROPOSAL TO MINISTER SIMONSEN. LATTER AGREED AND COMMENTED THAT HE IS OPTIMISTIC AND BELIEVES U.S. AND BRAZIL ARE PROGRESSING WELL AND THAT MAIN PROBLEM ON SUBSIDIES FOR U.S. MUST BE THE EEC. ON THE OTHER HAND, PRESIDENT GEISEL COMMENTED TO THE AMBASSADOR SOMEWHAT VAGUELY ABOUT EXISTING DIFFICULT BILATERAL TRADE PROBLEMS.

9. COMMENT: IT APPEARS THAT THE CURRENT ISSUES ARE RECEIVING ATTENTION AT THE HIGHEST LEVELS BUT THAT THE
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GOB HAS NOT YET DEFINITELY DECIDED ON ITS PRIORITIES AND FINAL NEGOTIATING POSITION REGARDING THE SUBSIDIES/CVD CODE. ACTIONS WITHIN THE NEXT TWO WEEKS ON TEXTILES WILL BE IMPORTANT IN DETERMINING WHETHER THE FORWARD MOMENTUM OF OUR TALKS WITH BRAZIL CAN BE SUSTAINED AND CONVERTED INTO EFFECTIVE SUPPORT FOR A CODE IN GENEVA. END COMMENT.
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Message Attributes

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